

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /110 W

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R 070900Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8280

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 5100

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF APRIL 1-7

1. SUMMARY: SHARP INCREASES IN MARCH AUTO REGISTRATIONS AND ADVANCE EXPORT INDICATORS ARE FURTHER EVIDENCE THAT JAPAN'S RECOVERY IS STRENGTHENING. LABOR MARKET CONDITIONS IMPROVED IN FEB AS MANUFACTURING OVERTIME JUMPED 8.7 PERCENT WHILE UNEMPLOYMENT AND UNIT LABOR COSTS DECLINED. RESPECTED TOKYO PROFESSOR CHARGES THAT RECOVERY WOULD HAVE COME SOONER HAD NOT GOJ PROLONGED RECESSION HERE WITH POLICIES WHICH DELAYED FISCAL STIMULUS AND KEPT ITS SCALE TOO SMALL. BOND YIELDS AND FOREX RESERVES ROSE FURTHER IN MARCH. END SUMMARY.

2. MARCH AUTO REGISTRATIONS ROSE 13.8 PERCENT FROM PRIOR

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MONTH ON SEASONALLY ADJUSTED BASIS. SHARP INCREASE FROM

FEB APPARENTLY INDICATES THAT RECOVERY FROM SALES SLUMP INDUCED BY ENFORCEMENT OF POLLUTION CONTROL AND HIGHER PRICES IN DEC IS NOW NEARLY COMPLETE. AUTO INDUSTRY SOURCES HAVE INDICATED THAT MARCH RISE WAS MORE THAN EXPECTED AND APPEARS TO BE ANOTHER SIGN THAT PACE OF RECOVERY IN DEMAND IS PICKING UP. NEVERTHELESS, MARCH SALES WERE STILL 8.8 PERCENT BELOW AVERAGE MONTHLY SALES FOR 1975. ON UNADJUSTED BASIS, AUTO REGISTRATIONS NORMALLY SHOW AN INCREASE OF ABOUT 90,000 VEHICLES FROM PRIOR MONTH IN MARCH AS DEALERS SEEK TO SHOW GOOD GAINS AT END OF FISCAL YEAR. HOWEVER, THIS YEAR WAS THE FIRST TIME THE MONTHLY INCREASE IN MARCH EXCEEDED 100,000 VEHICLES.

	UNADJUSTED (1000 CARS)	SEASONALLY ADJUSTED (1,000 CARS)	PERCENT CHANGE FROM PRIOR MONTH
JAN	117.1	176.5	- 6.1
FEB	162.7	182.9	3.6
MAR	265.8	208.2	13.8

3. STRONGER RATE OF RECOVERY OF JAPAN'S EXPORTS FOR MONTHS AHEAD IS SUGGESTED BY LEADING INDICATORS FOR JAPAN'S EXPORTS (BASED ON LETTERS OF CREDIT AND EXPORT CERTIFICATION DOCUMENTS, WHICH LEAD CUSTOMS BASIS EXPORTS BY PERHAPS ONE OR TWO MONTHS). PRELIMINARY CERTIFIED EXPORTS DATA RELEASED BY MITI ON APR 5 ARE AT ALL-TIME HIGH MONTHLY RECORD OF \$6.3 BIL IN MARCH, A SHARP 16.9 PERCENT INCREASE ON YEAR-OVER-YEAR BASIS. MITI REPORT WAS STRESSED BY BOTH JAPANESE AND ENGLISH LANGUAGE LOCAL PRESS HERE, AND IN APPARENT REACTION TO THAT NEWS THE YEN STRENGTHENED AGAINST THE DOLLAR ON TOKYO FOREX MARKET THE FOLLOWING DAY. MITI EXPLAINED, HOWEVER, STRONG PERFORMANCE IN MARCH FOR CERTIFIED EXPORTS WAS PARTLY ATTRIBUTED TO RUSHED SHIPMENTS BEFORE FREIGHT RATES TO NORTH AMERICA ARE RAISED IN APRIL, AS WELL AS A SEASONAL INFLUENCE OF BUSINESS FISCAL YEAR-END (MOST JAPANESE ENTERPRISES CLOSE THEIR ACCOUNTING PERIODS IN MARCH). JAPAN'S CERTIFIED EXPORTS TO THE U.S. JUMPED SHARPLY WHILE EXPORTS TO THE MIDDLE EAST RECORDED FIRST YEAR-OVER-YEAR DECLINE DURING MARCH. EXPORT LETTER OF CREDIT STATISTICS FOR MARCH WERE RELEASED APR 2 AND INDICATED A 27.6 PERCENT RISE OVER A YEAR EARLIER. THAT UNCLASSIFIED

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NEWS ALSO STRENGTHENED THE YEN, ON APR 5, EVEN THOUGH THE MARCH INCREASE WAS ONLY 1.1 PERCENT OVER FEB ON SEASONALLY ADJUSTED BASIS.

EXPORT INDICATORS (JEI NO. IN PAREN)
 L/C (41) CERTIFIED (42) CUSTOMS IMF
 BASIS (43) BASIS (44)
 (PCT CH FROM YEAR AGO-NOT SEASONALLY ADJUSTED)

JAN	17.5	MIN 0.7	MIN 0.9	MIN 0.9
FEB	22.2	8.2	7.9	8.3
MAR	27.6	16.9	N/A	N/A

(PCT CH FROM PRIOR MONTH - SEASONALLY ADJUSTED)

JAN	7.4	3.4	5.9	1.2
FEB	2.3	4.1	2.9	4.4
MAR	1.1	63	N/A	N/A

4. INDEX OF OVERTIME WORKED IN MANUFACTURING (JEI 401) JUMPED 8.7 PERCENT IN FEB ON S.A. BASIS. SHARP RISE FROM PRIOR MONTH APPARENTLY REFLECTS HEALTHY FEB INCREASE IN INDUSTRIAL PRODUCTION. UPSWING IN MANUFACTURING ACTIVITY ALSO REFLECTED IN MODEST FEB DECLINE OF SEASONALLY ADJUSTED INDEX OF UNIT LABOR COSTS (JEI 421). DECLINE IN LABOR COST INDEX MAY OFFER SOME HOPE TO MANUFACTURERS THAT COST OF EXCESS LABOR CAPACITY MAY BE EASED MORE RAPIDLY THAN EXPECTED IF PRODUCTION CONTINUES TO RISE.

OVERTIME IN MANUFACTURING AND UNIT LABOR COST, S.A.

(1970-100, PCT. CH. FROM PRIOR MONTH IN PAREN)

	OVERTIME	UNIT LABOR COST
DEC	51.6 (2.3)	196.2 (.04)
JAN	54.9 (6.4)	199.5 (1.7)
FEB	59.7 (8.7)	199.1 (MIN 0.2)

5. LABOR MARKET CONDITIONS CONTINUED TO IMPROVE IN FEB. UNEMPLOYMENT RATE (JEI 379) FELL BELOW 2 PERCENT LEVEL ON S.A. BASIS FOR FIRST TIME SINCE LAST SEP. ACTUAL NUMBER OF UNEMPLOYED WORKERS, S.A. (JEI 379) DECLINED 6 PERCENT FROM JAN FIGURE, AND WAS ONLY SLIGHTLY ABOVE ONE MILLION MARK. JOB OFFERS TO JOB APPLICANTS RATIO (JEI 385) ROSE FOR THIRD CONSECUTIVE MONTH TO REACH HIGHEST LEVEL SINCE MAY OF LAST YEAR. (NOTE: PRIME MINISTER'S UNCLASSIFIED

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OFFICE USES DIFFERENT SEASONAL ADJUSTMENT FACTORS FROM EPA. FEB UNEMPLOYMENT RATE, AS REPORTED BY PRIME MINISTER'S OFFICE WAS 2.04 PERCENT AND IS OFTEN CITED IN PRESS REPORTS.)

	JOB OFFERS TO APPLICANTS RATIO, S.A.	UNEMPLOYED, S.A. (1,000)	(RATE)
DEC	0.53	1,140	2.14
JAN	0.59	1,100	2.05
FEB	0.62	1,030	1.94

6. AVERAGE PROPENSITY TO SAVE (JEI 363) WAS 25.7 PERCENT IN JAN, A SHARP RISE FROM PRIOR MONTH. DATA RELEASED THIS WEEK REFLECT NEW SEASONAL ADJUSTMENT FACTORS, AND INDICATE THAT SAVING PROPENSITY FLUCTUATED SHARPLY AT YEAR-END. DEC DROP IN SAVING PROPENSITY DUE TO UNUSUALLY

SMALL YEAR-END BONUSES AND SLIGHT INCREASE IN EXPENDITURES
(S.A.).

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INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07

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COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /110 W
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R 070900Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8281

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

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(S.A. PERCENT DISPOSABLE INCOME)

NOV 23.0

DEC 20.2

JAN 25.7

7. GOJ POLICYMAKERS ARE CHARGED WITH MAJOR ERRORS IN
ADOPTING DEMAND MANAGEMENT POLICIES THAT HAVE GENERATED
A PROLONGED RECESSION HERE, BY A WIDELY RESPECTED TOKYO
ECONOMIST. IN AN ADDRESS TO CONFERENCE DISCUSSING RECENTLY
PUBLISHED BROOKINGS INSTITUTION REPORT ON JAPANESE
ECONOMY, HE SAID GOJ POLICY ACTION IN 1975 WAS DELAYED
AND ADOPTED ON TOO SMALL A SCALE BECAUSE OF A MISTAKEN
DIAGNOSIS OF BUSINESS CONDITIONS. HIROMITSU ISHI,
PROFESSOR OF FISCAL POLICY AT HITOTSUBASHI UNIVERSITY,
HAS SERVED AS CONSULTANT TO BOTH MINISTRY OF FINANCE AND

U.S. TREASURY DEPT ON FISCAL POLICY AND TAX STUDIES.
ACCORDING TO ISHI, CURRENT EXPANSIONARY MEASURES MAY NOT
PROVE TO BE AS STIMULATIVE TO JAPANESE BUSINESS AS GOJ
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EXPECTS. ISHI NOTES THAT WHILE PUBLIC WORKS PROJECTS ARE
BELIEVED TO PROVIDE A KEY PUMP-PRIMER FOR BUSINESS
RECOVERY, STIMULUS HAS PROVED DISCOURAGINGLY MEAGER IN
PAST SINCE FISCAL CRISES OF LOCAL GOVTS HAVE ACTED AS A
BRAKE. IN ADDITION, HE CHARGES THAT MANIPULATION OF
BOJ DISCOUNT RATE IS INFLEXIBLE, PARTLY BECAUSE OF CLOSE
RELATIONSHIP BETWEEN DEPOSIT RATES AND BORROWING RATES.
CITING RECENT HIGH LEVEL OF CONSUMER SAVINGS IN JAPA,
ISHI SAYS SAVINGS ARE LIKELY TO REMAIN NEAR ALL-TIME
HIGH RATE, THUS REQUIRING FURTHER STIMULATIVE STEPS
BY GOJ TO REACH 6 PERCENT REAL GROWTH TARGET FOR FISCAL
76. COMMENTING ON GOJ FISCAL POLICY ISHI SAID GOVT HAS
GIVEN HIGH PRIORITY TO KEEPING DEFICIT DOWN AND THIS
POLICY OBJECTIVE HAS BEEN AT CONSIDERABLE COST BY DELAYING
SPEED OF RECOVERY HERE.

8. JAPAN'S PUBLISHED OFFICIAL RESERVES REGISTERED ANOTHER
HEALTHY INCREASE IN MARCH, RISING \$231 MIL TO REACH \$14,182
MIL AT END OF MONTH. NEWS REPORTS ATTRIBUTED THIS TO
MERCHANDISE TRADE SURPLUS IN MARCH AS WELL AS BOJ FOREX
MARKET INTERVENION OF MORE THAN \$100 MIL IN ITS ATTEMPT
TO PREVENT SUBSTANTIAL APPRECIATION OF THE YEN DURING
PERIOD OF UNSETTLED CONDITIONS IN EUROPEAN FOREIGN
EXCHANGE MARKETS.

9. BOND YIELDS ROSE IN MARCH REFLECTING NORMAL SEASONAL
DEMANDS FOR FINANCIG, THOUGH RISE WASSUBSTANTIALY LESS
THAN LAST YEAR. YIELD ON GOJ BONDS ROSE BY 0.095
PERCENTAGE POINTS OVER PRIOR MONTHLY LEVEL TO REACH 8.707
PERCENT PERANNUM AT END OF MARCH. CORPORATE BOND YIELD,
ON OTHER HAND, WAS ALMOST UNCHANGED FROM FEB AND STOOD AT
8.741 PERCENT. TELEPHONE AND TELEGRAPH BOND YIELD ALSO
INCREASED DURING MARCH, RISING 0.126 PERCENTAGE POINTS
TO 8.821 PERCENT AFTER FOUR CONSECUTIVE MONTHS OF
DECLINE. CALL AND BILL RATES WERE LOWERED EFFECTIVE APR 1
IN USUAL RESPONSE TO SEASONAL CREDIT EASE, BUT
DECLINE WAS LESS SHARP THAN LAST YEAR. (SEE TOKYO
4381, PARA 7). CALL RATE (UNCONDITIONAL) WAS CUT BY
0.25 PERCENTAGE POINTS TO 6.75 PERCENT PER ANNUM WHILE
BILL RATE WAS LOWEERED BY 0.5 PERCENTAGE POINT TO 7.25
PERCENT.

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BOND YIELDS, YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)
TELEPHONE AND CORPORATE

	GOJ BONDS	TELEGRAPH BONDS	BONDS
JAN	8.607	8.800	8.690
FEB	8.612	8.695	8.740
MAR	8.707	8.821	8.741

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